

CPAs Play Key Role in Manufacturing Strategy

Nov 24, 2015 Michael Silvio, CPA

CPAs who specialize in the manufacturing sector can help you optimize your bottom line by maximizing the value of investments and reducing taxes.



Running a manufacturing process requires the oversight of many moving parts. Some are mechanical. Some involve the management of manpower. Almost all are affected by the bottom line.

With the financial picture driving many major decisions in manufacturing, it's important to partner with a CPA you trust. You'll want to choose someone who will not only give solid cost analyses and tax strategies, but can also provide creative counsel that helps direct the manufacturing process itself.

For instance, if a certain polymer that can save time in the manufacturing process wasn't previously considered because it seemed expensive, an experienced manufacturing accountant can run the numbers and project an accurate return on that investment. There are likely many aspects of such a change that a non-CPA wouldn't consider, such as the consumption rate on that particular additive; its value as scrap material that can be discounted within inventory

calculations; or even the return on investment related to the use of that particular polymer compared to the use of another polymer or substitute ingredient.

Another scenario that needs to be considered when undertaking a process improvement such as changing polymers is whether applying the new additive would slow down the manufacturing process and, consequently, cost more money. Most accountants can run those numbers with the help of the manufacturing managers, but a good CPA who specializes in manufacturing can tell you the value of research and development (R&D) tax credits you would be entitled to for making that change. This information can fill in the complete picture so manufacturing managers can make the best decisions and provide their customers with the lowest prices.

Certain manufacturing activities that might generate sizeable R&D credits include designing and developing new products; computer software and software applications; processes; prototypes; and formulas. Simply enhancing the features to existing products, technologies or materials could offset a significant amount of expenditures as well.



Silvio: A CPA can help a manufacturer to maximize the research and development credit, reduce taxes and therefore enhance the company's bottom line.

In some sectors, such as aerospace, automotive and defense, there are major tax incentives pertaining to the development of high tolerances and testing. The food manufacturing and processing industry favors research into lengthening the shelf life of products and packaging improvements, and the managers of life science companies have much to gain by pursuing tax credits for their work in genetics and cell theory.

Whether you are producing computers or vitamins, a manufacturing CPA should be involved with your operation every step of the way to establish best practices. Once the system is in place, your accountant needs to stay involved and continually audit the process not just to make sure that it's running smoothly, but to enhance it as the tax and regulatory

landscapes change.

One way that a CPA can stay involved and produce best practices is to assist management in properly identifying and documenting the procedures in both the new product development and manufacturing process improvement areas. This effort will ensure that all of the necessary information is captured to support any research and development tax credits for these

experimental activities. A CPA skilled in this area can help a company to maximize this credit, reduce taxes and therefore enhance the company's bottom line.

Typically, manufacturing enhancements and improvements involve analyzing certain manufacturing processes to determine what changes need to be made in order for the process to run more efficiently and effectively or to manufacture a new product line. In this case, the CPA can help the company maximize the deductibility of any capital expenditures to reduce a company's current tax bill. The CPA can also help the company review financing arrangements or other alternatives related to these capital expenditures.

In the competitive manufacturing industry, market forces do not allow much time for slow processes or financial uncertainty. It's critical that the solutions are found and implemented in real time, and the best way to stay on top of that is by partnering with CPAs who specialize in the manufacturing sector and will dedicate themselves to optimizing your bottom line.

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